



1963

Annual Report

NATIONAL BISCUIT COMPANY

66th

ANNUAL REPORT

for the year ended December 31, 1963

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NOTICE TO SHAREHOLDERS

The annual meeting of shareholders will be held at 2 P.M., April 8, 1964, in the Windsor Ballroom of the Commodore Hotel, 42nd Street and Lexington Avenue, New York, N. Y. Shareholders who cannot attend the meeting are urged to exercise their right to vote by proxy. A proxy form, proxy statement and return envelope will be sent to shareholders on March 3, 1964.



FINANCIAL HIGHLIGHTS

	1963	1962
Net sales	\$578,400,000	\$547,500,000
Income from operations	70,900,000	63,700,000
Net income	33,900,000	30,800,000
Net income per dollar of sales	5.8 cents	5.6 cents
Net income per share common stock	2.47	2.22
Dividends declared		
per share common stock	1.60	1.50
Earnings retained in the business	12,200,000	10,200,000
Cost of plant and equipment additions	11,800,000	24,000,000
Current assets	152,800,000	135,100,000
Current liabilities	65,800,000	62,800,000
Working capital	87,000,000	72,300,000



Lee S. Bickmore
President



George A. Mitchell
Executive Vice President



Nile E. Cave
Senior Vice President

THE PRESIDENT'S LETTER

To the Shareholders:

The year 1963 was an excellent one for NABISCO. Sales continued to increase and reached a record high of \$578.4 million. NABISCO's earnings hit an all-time peak figure of \$2.47 per common share, up approximately 11 per cent over the per share figure of the previous year. These sales and earnings levels were encouraging to your management. We are particularly grateful for the splendid support of our employees, shareholders, customers and suppliers, without which the success of 1963 would not have been possible.

But while sales and earnings increases are of vital importance, they were not the only events of significance to take place at NABISCO during the last year. These happenings are described further in the following pages but I would like to call your attention to some of those we regard as being of major interest and importance.

NABISCO took several steps in 1963 designed to expand our international operations and to diversify further our product lines at home. On the international scene we acquired an excellent French company, Biscuits Belin, a firm with a well-earned reputation for product quality. Domestically, NABISCO acquired the James O. Welch Company, prominent New England candy maker. In addition we secured the United States distribution rights for a line of frozen Danish pastries. These latter steps place the Company in new areas of interest which we feel hold considerable and attractive potential.



C. Eugene Lair
Senior Vice President



Edward A. Otocka
Senior Vice President



Charles S. Webster
Senior Vice President

A major change in our management organization was effected by the appointment of our four Senior Vice Presidents to the Executive Department. Messrs. Nile E. Cave, C. Eugene Lair, Edward A. Otocka and Charles S. Webster join Executive Vice President George A. Mitchell and me as the Company's chief policy and planning body. These four men, with diverse backgrounds in marketing, purchasing, operations and finance, will be able to employ this experience to advantage in this new assignment.

During the year a Research Committee was created in a move to improve the direction of NABISCO's research programs. Representing all major divisions, this group will seek to direct our research efforts into areas which offer the most advantages.

Last fall, the Company held its first global conference. All of our officers and top managers from the various divisions both domestic and abroad were in attendance. This presented an excellent opportunity to discuss corporate objectives and programs with the people responsible for their enactment. The conference was most successful in every respect.

Most of the economic indicators appear favorable for 1964. We anticipate it will be a good year for NABISCO. We believe sales and earnings will continue to grow during the year.

A handwritten signature in dark ink, reading "Lee S. Rickmore". The signature is fluid and cursive, with a long, sweeping underline.

February 27, 1964

President

Sales

NABISCO's net sales continued the upward trend of the last four years and again reached record levels in 1963. Sales for the year totaled \$578.4 million, a gain of 5.6 per cent over \$547.5 million in the previous year.

All figures in this report include results for both 1962 and 1963 of the James O. Welch Company and affiliates, acquired October 1, 1963.

Perhaps the most encouraging aspect of the 1963 sales total is that it represented improvement on the part of each of our major operating divisions. The Biscuit, Bread, Candy and Special Products divisions all achieved gains over their respective 1962 results. In addition, the sales of NABISCO's subsidiary and associated company operations abroad also showed marked improvement over 1962.

These general sales increases can be attributed to the continual strengthening of our advertising, marketing and promotion programs and to the success of several new and improved products brought out during the year. NABISCO believes it essential, in the face of competitive pressures, to seek constant improvement in its efforts to reach and inform consumers and to gain approval of the food distributors through whom our products are sold.

The 1963 sales increases were achieved despite unseasonably warm weather in October and November which temporarily slowed fourth quarter cracker sales. The volume of Survival Ration Cracker sales to the federal government decreased to \$2.6 million in 1963 from \$6.4 million in 1962, the drop in the fourth quarter alone totalling \$3.1 million.

Net Sales by Quarters

(Millions of Dollars)

<i>Quarter Ended</i>		<u>1963</u>	<u>1962</u>
March	31	\$142.0	\$133.9
June	30	140.4	128.6
September	30	145.2	136.0
December	31	<u>150.8</u>	<u>149.0</u>
Total		\$578.4	\$547.5

Net Income

NABISCO's earnings reached a new high in 1963 of \$33.9 million, up from the \$30.8 million profits for the previous year. Net income for 1963 was equal to \$2.47 per share of common stock, against a figure of \$2.22 per

share a year ago, an increase of approximately 11 per cent. Earnings of the James O. Welch Company and affiliates are included for both years.

The increase in 1963 earnings was largely the result of expanding sales volume. In addition to the growth of sales, continued technological improvements are taking place as our operating and research groups develop better techniques in the production process. By year end the new Chicago bakery addition was also making a contribution to improved manufacturing efficiency.

The profit improvement has been helped greatly by good teamwork and cooperation on the part of all staff departments, working closely with the operating divisions.

Working Capital

Working capital totaled \$87.0 million at December 31, 1963, up \$14.7 million from the close of 1962. Of this amount we had on hand \$58.8 million in cash and marketable securities, a gain of \$15.5 million from our position at the end of the previous year.

The source and disposition of funds for the last two years is shown in the following tabulation:

Changes in Consolidated Working Capital

(Millions of Dollars)

	<u>1963</u>	<u>1962</u>
Funds Provided by		
Net income	\$ 33.9	\$30.8
Depreciation (reduces net income, but does not represent cash outlay)	15.1	14.6
Total funds provided	<u>49.0</u>	<u>45.4</u>
Funds Applied to		
Dividends declared	21.7	20.7
Additions to plant and equipment	11.8	24.0
Other items (net)8	7.3
Total funds applied	<u>34.3</u>	<u>52.0</u>
Increase (decrease) in working capital	<u>\$ 14.7</u>	<u>\$(6.6)</u>
Consisting of changes in		
Cash and marketable securities	\$ 15.5	\$(8.2)
Accounts receivable5	4.1
Inventories	1.7	4.6
Current liabilities	(3.0)	(7.1)
	<u>\$ 14.7</u>	<u>\$(6.6)</u>

Shareholders and Dividends

In 1963 the number of shares of common stock issued and outstanding was increased by 200,000, used to acquire the James O. Welch Company and affiliates.

The total number of shares of common stock issued and outstanding is now 13,691,922, held by 80,500 shareholders at the end of 1963. The average individual ownership was 170 shares and each of these shares had a book value of \$14.88, an increase of \$0.89 per share over 1962.

With the payment of the October 10, 1963 dividend, we began our 65th year of uninterrupted quarterly dividend payments. In 1963 dividend payments amounted to \$1.57½ per share as compared with \$1.47½ in the previous year. Total dividends declared came to \$1.60, an increase of 10 cents per share over the amount declared in 1962. This was the sixth increase in dividends in the last seven years.

Growth

NABISCO believes that a substantial portion of its orderly, planned growth must come through the acquisition of or association with established, reputable companies or product lines, both in this country and abroad. Several such moves were made in 1963 which we believe add diversification to our interests and hold considerable potential for the Company.

On March 6, 1963, NABISCO formed an association with Biscuits Belin, S. A., a leading French biscuit manufacturer. Belin has earned a wide reputation for product quality. The firm has a very modern plant at Chateau-Thierry where it employs some 700 persons. Belin's products are distributed throughout France and it enjoys an excellent export business in West Germany and Great Britain.

On October 1, 1963, we acquired the James O. Welch Company, a well-known New England candy manufacturer. Welch operates three manufacturing plants located in Massachusetts and California, and has approximately 1,000 employees. Our affiliation with the Welch organization brings NABISCO into a new field of endeavor and one which offers encouraging prospects.

Also in 1963 the Company secured the United States distribution rights for the Mette Munk line of imported Danish pastries. These frozen food items are produced in Odense, Denmark by one of Europe's oldest companies, Mette Munk Bageri A/S, founded in the year 1103. The products are quick frozen after baking and shipped to the United States

under refrigeration. This marks NABISCO's entry into the frozen food field, presently one of the fastest growing segments of the food industry. These products will be distributed by a newly established Frozen Foods Division.

Research

In 1963 NABISCO established a Research Committee which includes members of the Executive Department, officers representing all operating divisions, and other key executives. The committee was formed to determine research goals and areas of interest for future development so that expenditures may be directed into projects holding the most potential benefits for the Company.

The steady increase in research activities continued during 1963. We have commented at length in recent reports on the importance of new-product development and this work continues to occupy a major role in NABISCO's research endeavors. This research is accompanied by a constant program of improving existing products and of seeking better uses of new packaging materials and design. These are continuing activities carrying a high priority, for the end results are the NABISCO products and packages which make their way into the food market place.

But new products and improved packages are not the whole research story. We believe the entire range of baking and processing operations contain areas for potential improvement and increased efficiency which can be of considerable benefit to NABISCO. Among these areas to which a great deal of attention was given in 1963 were:

- Continued experimentation with shortenings to improve product quality and to broaden applications already proved successful and in actual production.
- Processing and handling of frozen baked goods to assure that these items reach the consumer in excellent condition.
- Extension of the technique of continuous dough mixing to other products.
- Development of equipment for the precision weighing and automatic handling of ingredients used in small quantities. Major ingredients, such as flour, sugar and shortenings, are handled automatically now.

New Products

A number of new NABISCO products appeared in 1963 and made an appreciable contribution to sales for the year. Among the leading items which have received favorable consumer response in the form of strong

repeat purchases are the following:

TANG-O CHIPS—A crisp snack cracker with a hearty beef taste.

MARSHMALLOW TWIRLS—A large marshmallow cookie with an attractive coating.

STRIPED PEANUT LOGS—A long, tender base cake with a crushed peanut filling and a striped coating.

VANILLA FUDGE SANDWICH—A delicious fudge-filled sandwich cookie.

SWISS ROLLS—A soft devil's food base cake with a rich creme filling.

FAMILY FAVORITES—CHOCOLATE CHIP COOKIES—An old favorite now appearing in our popular-priced Family Favorites line.

FAMOUS CHOCOLATE COVERED COOKIE ASSORTMENT—A pleasing selection of our leading NABISCO chocolate-coated varieties.

OATMEAL RAISIN COOKIES—A spicy, raisin-filled oatmeal piece which has had outstanding acceptance. This is one of a group of five popular cookies packaged in double-row, brightly colored paper bags.

NABISCO SHREDDED WHEAT—Spoon Size—A smaller, bite-size shredded wheat biscuit.

NABISCO's Bread Division introduced a line of Old World specialty breads which have become popular. All packaged in reclosable plastic bags, the Old World varieties include Bavarian Pumpernickel, Swiss Seeded Rye, Dutch Dill, Swedish Rye, and Danish White. Like our other bread products, these items are sold under the MILLBROOK BREAD label.

In addition to these new products a number of other newly developed items are being consumer-tested in limited areas. One of these, TEAM FLAKES, a new four-grain cereal, shows encouraging promise.

Capital Expenditures

NABISCO and its consolidated subsidiary companies spent a total of \$11.8 million for improvements of plant and equipment in 1963, compared with \$24.0 million spent in 1962.

Major expenditures for the new addition to our Chicago biscuit and cracker bakery were completed in 1962. This plant now has its five new band ovens in production and work is presently underway on one additional oven which will be completed by the end of 1964.

One of the major innovations at the Chicago addition is the control system for handling all ingredients which go into cookie and cracker doughs. The system is directed by a digital computer and is the first oper-

ating unit of its kind in the baking industry. The various product formulas are inserted into the computer's "memory" and, upon call, it starts and stops the delivery of ingredients—in predetermined amounts and in correct sequence—to the proper mixing machine. Optimum quality control and improved raw material inventory control are just two of the immediate benefits of this advanced installation.

A wide range of additional capital projects was in various stages of completion in 1963. In April NABISCO acquired land in Buena Park, California, a suburb of Los Angeles, for construction of a new West Coast biscuit and cracker bakery. Scheduled for completion in 1965, this plant will furnish the increased production necessary to serve the rapidly expanding markets in the area. Expenditures in connection with this bakery were not material in 1963.

New baking equipment has been installed in our Buffalo bread bakery for the production of new types of cakes and cookies which will be distributed by both the Biscuit and Bread divisions. An additional six-color printing press is being installed in the Company's printing and carton plant at Beacon, New York, where many of our packages are produced.

NABISCO has budgeted capital expenditures for 1964 at approximately \$20 million. Actual plant construction will begin at the Buena Park, California site and new equipment will be installed in a number of domestic and international plants.

International Operations

NABISCO operations outside the United States reached an all-time high in 1963. Aggregate sales of NABISCO subsidiaries in other countries were at their highest level in our history. Equally encouraging, the sales increases were accompanied by an improvement in earnings.

During the year NABISCO subsidiaries overseas effected a number of changes in their operations directed at growth and improvement. Product lines were broadened, often to include American-type cracker items new to many areas outside the United States. New equipment was put into operation. Distribution facilities were expanded. Provisions were made for future plant expansion. Following is a brief summary of some of the major developments at NABISCO-affiliated companies abroad.

New products were introduced by nearly all of our subsidiaries. In Great Britain we began production of PREMIUM crackers, still our biggest

seller in the United States. Snack crackers, so popular at home, went into production in France, Venezuela and Great Britain. In Puerto Rico, three new items were added to a heretofore single product line with an encouraging increase in volume. Venezuela experienced one of the most successful new product performances with a new cracker item. In Canada two new cookie items had an enthusiastic introduction. Our New Zealand company added new biscuit and candy varieties.

While production of American-type products increased abroad, we began a program of importing to this country and Canada products made by NABISCO Frears Biscuits in Great Britain and Arbona Hermanos in Puerto Rico.

Additional packaging equipment was installed at our subsidiary companies in France, Puerto Rico, Venezuela and Great Britain. Much of this was obtained to package newly introduced varieties; in other instances to increase efficiency in existing operations.

Sales and distribution facilities were expanded in Mexico. Our subsidiary's main plant is located in Mexico City and distribution has been largely conducted from that point. A new sales branch was opened in Guadalajara, Mexico's second largest city, which will greatly increase our product distribution.

A number of NABISCO subsidiaries acquired property to make possible future expansion in both manufacturing and distribution facilities. In France, Biscuits Belin obtained land necessary for additions to plant capacity. Griffin and Sons in New Zealand purchased property for a new sales and distribution building to provide better service.

In addition to these activities on the part of our producing units abroad, United States export volume was expanded in 1963.

In the fall of 1963, NABISCO officers and the top executives of subsidiary and affiliated companies in eight other countries met in Atlantic City, N. J. This three-day meeting was the Company's first global management conference.

The conference had several objectives. It was an excellent way to acquaint our key managers with NABISCO's corporate aims. Further, each of these operational people was able to view his own activities in relation to over-all Company plans and programs. In addition, through establishing personal contacts among our widely separated international units, we can further develop the spirit of close cooperation upon which efficient, coordinated operations depend.

Personnel

NABISCO continued to place considerable emphasis on its personnel recruitment, training and development programs during 1963. The demands of a growing business for qualified, competent people are steadily increasing; yet they must be met if the Company is to achieve the opportunities for expansion it believes possible. We have developed a number of internal training courses for NABISCO personnel. These are supplemented by various outside courses, seminars and college facilities, plus an educational assistance program which encourages eligible employees to pursue beneficial courses and studies in their off-work hours.

During the year the Company awarded George H. Coppers Merit Scholarships to the sons of four NABISCO employees. The awards are made annually to high school seniors whose parents are Company employees and who achieve finalist ranking in the National Merit Scholarship competition.

In the fall the Company reached agreement with its production workers on a two-year contract which will run until August 31, 1965. The Company and its consolidated subsidiaries had a total of 29,300 employees at the close of the year. Salaries, wages and the various employee benefit costs totaled \$181.7 million in 1963, up from \$173.6 million in 1962.

The attractive bakery of Biscuits Belin, located on the Marne River at Chateau-Thierry, 60 miles east of Paris.



Organizational Changes

During the year 1963 there were several changes in the Company's Board of Directors and among the officers, together with some important organizational revisions to strengthen NABISCO at the managerial and operational levels.

Berford Brittain, Jr. was elected to the Board of Directors on January 28, 1963. A Senior Vice President of the Continental Illinois National Bank and Trust Company of Chicago, Mr. Brittain has spent 34 years with that financial institution.

Harrison F. Dunning was elected to the Board at the annual meeting of shareholders on April 10, 1963. Mr. Dunning is President of the Scott Paper Company and has been associated with that firm since 1935.

Cecil C. Garey, who joined NABISCO in 1929, was elected Vice President, Biscuit Division, on September 23, 1963.

In January, 1964 James O. Welch, President of the Welch Candy Division, was elected a Vice President of NABISCO.

Four Senior Vice Presidents were appointed to the Company's Executive Department in September to serve with the President and Executive Vice President as NABISCO's top policy and planning group. The four men are Nile E. Cave, C. Eugene Lair, Edward A. Otocka, and Charles S. Webster.

The four Senior Vice Presidents possess different backgrounds—sales, purchasing, production, and finance—and have spent all or most of their business careers with NABISCO. They bring a combined total of 107 years of Company experience to their new assignment.

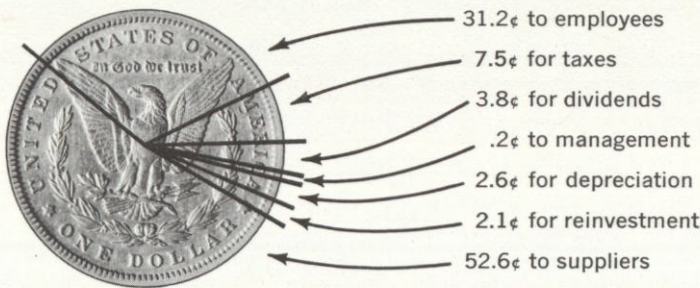
It is interesting to note that the average age of the Company's 20 officers is just 51 years, while the average length of service of these men is 26 years.



New members of the Board of Directors are: Berford Brittain, Jr., left, and Harrison F. Dunning.

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

How Each Nabisco Sales Dollar Was Used:

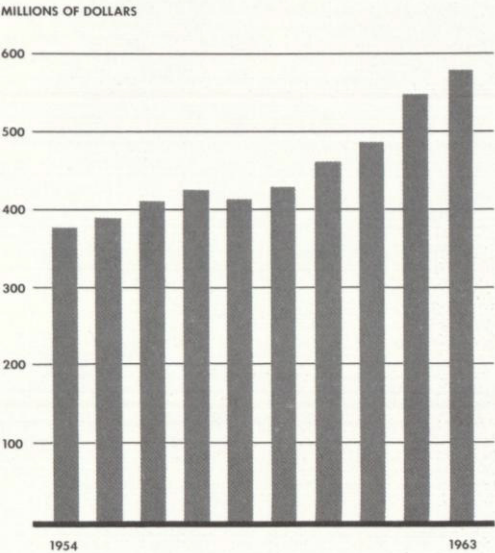


Summary of Operations - 1963

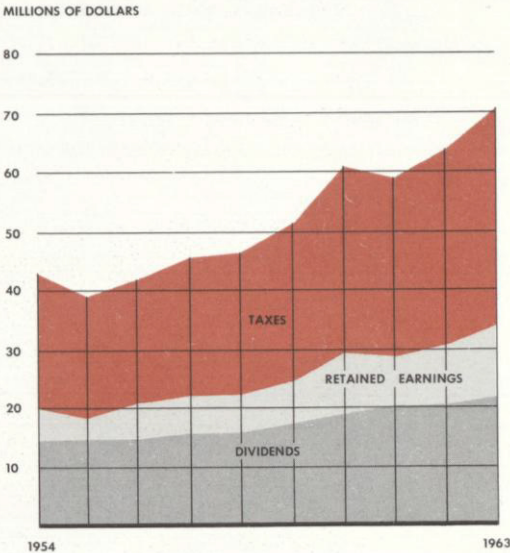
We received from sale of our products	\$578,416,918	100%
We expended for		
Raw materials, supplies and services bought from others . . .	304,421,386	52.6
Employees' services (wages, pensions, social security taxes, etc.)	180,333,880	31.2
Direct taxes, except social security taxes	43,235,291	7.5
Estimated wear and tear on plant and equipment	15,135,020	2.6
Officers' salaries for management of the business	1,371,605	.2
Leaving profits* which were		
Distributed as dividends to the shareholders	\$ 21,661,236	3.8
Retained in the business for expansion and modernization . . .	12,258,500	2.1

* National Biscuit Company also received interest and miscellaneous income of \$1,511,037 arising from activities not related to the manufacture or sale of its products, and incurred interest expense on subordinated debentures of \$1,733,639. These items, after taxes, reduced net income by \$48,685.

Net Sales



Distribution of Income Before Taxes



NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Financial Position

	December 31, 1963	December 31, 1962
Current assets		
Cash	\$ 18,530,399	\$ 24,303,258
Marketable securities (approximately market) . .	40,316,908	19,064,127
Accounts receivable	24,351,176	23,796,765
Inventories	69,618,499	67,948,916
Total current assets	<u>152,816,982</u>	<u>135,113,066</u>
Less current liabilities		
Accounts payable and accrued expenses	34,906,733	35,000,946
Common dividend payable	5,475,307	5,058,512
Federal and foreign taxes on income	25,392,207	22,741,770
Total current liabilities	<u>65,774,247</u>	<u>62,801,228</u>
Working Capital	87,042,735	72,311,838
Investment in and advances to foreign subsidiaries, not consolidated	14,333,339	4,837,814
Mortgages receivable	187,936	5,201,290
Other assets	11,490,644	12,125,850
Plants, real estate, machinery and equipment . . .	<u>132,107,995</u>	<u>136,480,699</u>
Total assets less current liabilities	245,162,649	230,957,491
Deduct		
4 ³ / ₄ % subordinated debentures, due April 1, 1987 .	36,497,300	36,497,300
Deferred federal and foreign taxes on income . .	<u>4,973,377</u>	<u>2,978,034</u>
Excess of assets over liabilities	<u><u>\$203,691,972</u></u>	<u><u>\$191,482,157</u></u>
Represented by		
Capital stock, common	\$ 68,459,610	\$ 68,459,610
Par value \$5—shares authorized 24,000,000, issued 13,691,922		
Additional paid-in capital	923,530	923,530
Retained earnings	<u>134,308,832</u>	<u>122,099,017</u>
	<u><u>\$203,691,972</u></u>	<u><u>\$191,482,157</u></u>

(Financial statements should be read in conjunction with notes appearing on pages 16 and 17.)

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Income and Retained Earnings

	<u>1963</u>	<u>1962</u>
Net sales	<u>\$578,416,918</u>	<u>\$547,470,936</u>
Cost of sales	346,988,433	329,659,712
Selling, general and administrative expenses	132,890,659	127,632,019
Depreciation	15,135,020	14,629,298
Taxes (other than federal and foreign taxes on income)	12,504,765	11,845,305
Interest and miscellaneous income (net)	1,511,037	1,391,473
Interest on subordinated debentures	1,733,639	1,247,279
Federal and foreign taxes on income	<u>36,804,388</u>	<u>32,996,607</u>
Total	<u>544,545,867</u>	<u>516,618,747</u>
Net income	33,871,051	30,852,189
Retained earnings January 1	122,099,017	126,757,258
Retained earnings of the James O. Welch Company and affiliates at January 1, 1962	<u>—</u>	<u>3,959,517</u>
	<u>155,970,068</u>	<u>161,568,964</u>
Common dividends declared, \$1.60 per share in 1963, \$1.50 per share in 1962	21,661,236	20,234,057
Preferred dividends declared	—	434,079
Excess of redemption price over par value of preferred stock retired in 1962	<u>—</u>	<u>18,801,811</u>
Retained earnings December 31	<u><u>\$134,308,832</u></u>	<u><u>\$122,099,017</u></u>

(Financial statements should be read in conjunction with notes appearing on pages 16 and 17.)

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

JAMES O. WELCH COMPANY and affiliates were acquired October 1, 1963 for 200,000 shares of National Biscuit Company common stock, which acquisition has been treated as a pooling of interests. Consequently, the statement of income and retained earnings includes the results of these companies for both 1962 and 1963. The statement of financial position at December 31, 1962 has been restated to include amounts applicable to these companies at that date. The details of restated additional paid-in capital at December 31, 1962 are as follows:

National Biscuit Company	\$1,434,740
James O. Welch Company and affiliates	24,990
	<u>1,459,730</u>
Less excess of par value of 200,000 shares of National Biscuit Company common stock over par value of the capital stock of James O. Welch Company and affiliates	536,200
	<u><u>\$ 923,530</u></u>

INVENTORIES generally are stated at average cost or market, whichever is lower, and comprise

	<u>1963</u>	<u>1962</u>
Raw materials and supplies	\$44,826,493	\$44,497,151
Finished product	24,792,006	23,451,765
	<u>\$69,618,499</u>	<u>\$67,948,916</u>

OTHER ASSETS for 1963 include \$9,476,903 of unamortized excess of cost of investment over book amount of net assets of consolidated foreign subsidiaries acquired since 1958; and \$2,013,741 of prepaid expenses and deferred charges.

PLANTS, REAL ESTATE, MACHINERY and EQUIPMENT are stated at cost and comprise

	<u>1963</u>	<u>1962</u>
Buildings	\$ 85,891,403	\$ 86,942,198
Machinery and equipment	173,350,270	167,546,907
	259,241,673	254,489,105
Less allowances for depreciation	132,466,793	122,696,505
	126,774,880	131,792,600
Land	5,333,115	4,688,099
	<u>\$132,107,995</u>	<u>\$136,480,699</u>

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FOREIGN SUBSIDIARIES are included in the financial statements for 1963 at the following U. S. dollar amounts (translated at appropriate rates of exchange): working capital, \$7,911,675; net plant assets, \$26,459,655; and net income, \$3,522,018.

INVESTMENT CREDIT—In the Company's 1962 Annual Report to shareholders, the investment credit for the year 1962 was treated as a reduction of the cost basis of the qualifying assets, with the intention that such reduction would be amortized over the productive lives of the affected equipment. To conform with the requirements of the Securities and Exchange Commission, the cost basis of the qualifying assets has been restated for 1962 to reflect the assets at full, original cost and the amounts of the investment credits for both 1962 and 1963 have been added to allowances for depreciation in the statement of financial position. A corresponding charge to depreciation expense and a reduction in the provision for taxes has been made in the years 1962 and 1963 in the statement of income and retained earnings. Under either accounting treatment the effect on current net income is minimized by spreading the investment credit over the lives of the qualifying assets.

Report of Auditors

TO THE SHAREHOLDERS OF NATIONAL BISCUIT COMPANY:

We have examined the statements of financial position of National Biscuit Company and consolidated subsidiaries as of December 31, 1963 and 1962, and the related statements of income and retained earnings for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and income and retained earnings present fairly the financial position of National Biscuit Company and consolidated subsidiaries at December 31, 1963 and 1962, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 3, 1964

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Ten Year Financial Review

Dollars in Millions (except per share figures)

	1963	1962
Net sales	\$578.4	\$547.5
Earnings before income taxes	70.7	63.8
Federal and foreign taxes on income	36.8	33.0
Net income	33.9	30.8
Earnings retained in the business	12.2	10.2
Net income per common share	2.47	2.22
Dividends declared		
Preferred stock	—	.4
Common stock	21.7	20.2
Per common share	1.60	1.50
Current assets	152.8	135.1
Current liabilities	65.8	62.8
Working capital	87.0	72.3
Plant and equipment (net)	132.1	136.5
Plant and equipment expenditures	11.8	24.0
Cost of employees' services	180.3	172.5
Provision for all taxes (except social security)	43.2	39.9
Book value of common stock	203.7	191.5
Book value per common share	14.88	13.99
Number of shareholders	80,500	81,400

Figures for 1963 and 1962 include amounts applicable to the James O. Welch Company and affiliates.

1961	1960	1959	1958	1957	1956	1955	1954
\$486.3	\$463.6	\$429.0	\$413.3	\$424.5	\$410.5	\$389.6	\$376.4
59.2	60.8	51.2	46.4	45.7	41.9	39.2	43.2
30.8	31.5	26.7	24.3	23.6	21.6	20.9	23.3
28.4	29.3	24.5	22.1	22.1	20.3	18.3	19.9
7.8	10.4	7.5	6.3	6.3	5.8	3.8	5.5
1.98	2.04	1.78	1.59	1.59	1.45	1.30	1.42
1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
18.9	17.2	15.3	14.1	14.1	12.8	12.8	12.7
1.40	1.25	1.20	1.10	1.10	1.00	1.00	1.00
129.6	129.7	112.2	99.0	92.0	95.1	94.8	102.5
52.4	53.9	46.0	44.5	46.9	45.0	46.5	48.7
77.2	75.8	66.2	54.5	45.1	50.1	48.3	53.8
125.3	121.4	121.3	130.0	133.0	123.3	120.1	112.1
16.8	11.5	8.4	9.7	21.6	15.7	18.1	15.2
156.8	148.9	140.1	136.2	135.6	133.5	130.3	126.6
36.1	36.7	31.5	29.0	28.1	25.8	25.0	27.1
195.7	187.8	171.1	163.7	157.4	151.1	145.3	141.6
14.50	13.92	13.40	12.81	12.32	11.83	11.38	11.08
83,200	77,300	75,800	75,700	75,600	72,300	70,300	69,800

Principal Domestic Bakeries and Plants

Biscuit and Cracker Bakeries

Atlanta, Georgia
Chicago, Illinois
Denver, Colorado
Fair Lawn, New Jersey
Houston, Texas
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Portland, Oregon
St. Louis, Missouri

Bread and Cake Bakeries

Albany, New York
Birmingham, Alabama
Buffalo, New York
Burlington, Vermont
Cleveland, Ohio
Elmira, New York
Glens Falls, New York
Houston, Texas
Plattsburgh, New York
Rochester, New York
Syracuse, New York

Cereal Plants

Battle Creek, Michigan
Chester, Pennsylvania
Minneapolis, Minnesota
Niagara Falls, New York
Oakland, California

Flour Mills

Carthage, Missouri
Cheney, Washington
Toledo, Ohio

Specialty Bakeries and Plants

Beacon, New York	<i>(printing plant)</i>
Buffalo, New York	<i>(pet foods)</i>
Cambridge, Massachusetts	<i>(candy)</i>
Dayton, Ohio	<i>(ice cream cones)</i>
Evanston, Illinois	<i>(machine shop)</i>
Fair Lawn, New Jersey	<i>(research and development)</i>
Holland, Michigan	<i>(Holland Rusk)</i>
Los Angeles, California	<i>(candy)</i>
Lyons, New York	<i>(dates and fruits)</i>
Mansfield, Massachusetts	<i>(candy)</i>
Marseilles, Illinois	<i>(paperboard, printing)</i>
Minneapolis, Minnesota	<i>(crisp bread)</i>
Woodbury, Georgia	<i>(dates and pimientos)</i>
York, Pennsylvania	<i>(pretzels)</i>

International Subsidiaries

AUSTRALIA:
Nabisco, Pty., Limited

MEXICO:
Nabisco-Famosa, S.A.

CANADA:
Christie, Brown & Company, Limited
Matthews-Wells Company, Limited
Nabisco Limited:
Christie's Bread Division
Nabisco Foods Division

NEW ZEALAND:
Griffin and Sons, Limited

ENGLAND:
Nabisco Frears Biscuits Limited
Nabisco Limited

PUERTO RICO:
Arbona Hermanos Division

FRANCE:
Biscuits Belin, S.A.
Biscuits Gondolo, S.A.

VENEZUELA:
Nabisco-La Favorita, C.A.

NATIONAL BISCUIT COMPANY

425 Park Avenue, New York, N. Y.

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KENNETH M. HATCHER	Secretary and Treasurer
WARREN J. ROBERTSON	Controller

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Morgan Guaranty Trust Company of New York
140 Broadway, New York 15, New York

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The First National City Bank of New York
55 Wall Street, New York 15, New York

Debenture Trustee:

Bankers Trust Company
280 Park Avenue, New York 17, New York

